REPORT

OF THE

ROYAL COMMISSION

to inquire into

THE INSHORE FISHERY

OF

NEWFOUNDLAND AND LABRADOR

PHASE 1

PROVINCE OF NEWFOUNDLAND AND LABRADOR

1980

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David Howley
Aidan Maloney

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ROYAL COMMISSION
TO INQUIRE INTO
THE INSHORE FISHERY
OF
NEWFOUNDLAND AND LABRADOR
CHIMO BUILDING
CROSBIE ROAD
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December 17, 1980

The Honourable G.A. Winter, O.C., LL.D.,
Lieutenant-Governor of Newfoundland and Labrador.

Sir:

Your Royal Commission to Inquire into the Inshore Fishery of Newfoundland and Labrador, appointed by Order-in-Council Number 1012-80 and dated August 20, 1980, advises that it has completed its study of the matters contained in Phase One of its inquiry and herewith submits its report relating to same.

Respectfully submitted,

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In submitting this report the Commission wishes to acknowledge the assistance provided by organizations and individuals. The Fishing Industry Advisory Board, the Department of Fisheries and Oceans, and the Provincial Department of Fisheries have been particularly helpful in providing documented information related to Phase One of the Commission's work. The Commission appreciates presentations made by The Newfoundland Fishermen, Food and Allied Workers, Local 465, and the Fisheries Association of Newfoundland and Labrador in private meetings. The management and staff at each of the three inshore plants which the Commissioners visited were most cordial in the reception they extended and very thorough in the inspection tour which they arranged for the Commissioners. The Commission is grateful to the members of the Association in general for the prompt submission of requested documents and for the manner in which they accommodated the persons who visited their premises gathering information for the Commission. The assistance of the President, Newfoundland and Labrador Development Corporation Limited and of the Director, Newfoundland Statistics Agency who expeditiously provided the Commission with reference data is gratefully acknowledged.

The Commission is especially appreciative of the outstanding effort made by its staff to see that the work was completed as quickly as possible.

INTRODUCTION

On August 20, 1980, The Royal Commission to Inquire into the Inshore Fishery of Newfoundland and Labrador was appointed with terms of reference as stated in Appendix A. During the period of approximately six weeks immediately preceding the appointment of the Commission, there had been a disruption of the selling and purchasing of fish between a significant proportion of the inshore fishermen on the one hand and the majority of the member companies of The Fisheries Association of Newfoundland and Labrador on the other. The disruption in the normal selling and purchasing of fish had come about through action taken by both the Newfoundland Fishermen, Food and Allied Workers, Local 465, and members of the Fisheries Association of Newfoundland and Labrador Limited in their dispute regarding the prices to be paid for inshore fish landed in 1980.

While the terms of reference do not include any explicit reference to the dispute in process at the time the Commission was appointed, the Commission was requested to address the topic of fish prices for 1980 as specifically described in the following terms of reference:

> ". . . We, . . .constitute and appoint you. . . to be Commissioners to hold an enquiry into the matters following . . .
>
> (i) examine and audit all such records of the member companies of the Fisheries Association of Newfoundland and Labrador as you deem appropriate to determine the ability of members of the said Association to pay inshore fish prices in excess of 1979 contract prices;
>
> (ii) make specific recommendations on fish prices for 1980."

The Commission, consequently, recognized the limitations placed on Phase One of its study.

The companies to be studied were those which are members of the Fisheries Association of Newfoundland and Labrador. The Commission in Phase One did not study the companies which are members of the Independent Fish Producers Association of Newfoundland and Labrador nor did it study the Canadian Saltfish Corporation and its agents.

The Commission was authorized to conduct its study by examining company records. Public hearings were, therefore, not held during Phase One. Information gathered from records, rather than information from other sources, was evidence to be considered during Phase One deliberations.

The Commission was asked to determine the ability of companies to pay inshore fish prices. Inshore fish includes several species each of which is harvested from the near-shore waters. In contrast to the deep sea fishery in which

fish is harvested by large trawlers generally owned by fish processing companies, the inshore fishery is conducted from boats varying in size from longliners to boats of seventeen or eighteen feet in length. The boats and gear used in harvesting fish in the inshore fishery, generally speaking, are owned by the individual fishermen who sell their catch to the fish processing companies. In the inshore fishery, therefore, the processing company is purchasing, rather than harvesting, raw material.

Based on considerations having the limitations described above, the Commission was asked to make specific recommendations regarding fish prices for 1980. The Commission interpreted "specific" to mean in the same detail regarding species and grade as is found in the price list which forms the appendix of the collective agreement for 1979 between the Newfoundland Fishermen, Food and Allied Workers, Local 465, and the Companies.

It must be understood that the recommendations made in the report on Phase One are based exclusively on the Commission's interpretations and judgements regarding information describing market conditions and the financial operations of the companies. The economic needs of fishermen and the manner in which those needs are related to the establishment of inshore fish prices is one of the subjects to be studied in Phase Two of the Commission's work.

CHAPTER I

PROCEDURE FOLLOWED

The Commission, from the beginning, realized the difficulty of the task which it had accepted. To assess the ability to pay in an industry influenced by a large number of fluctuating conditions would likely produce results which may be contradicted by the next change. To assess the ability of one company to pay is a challenging task; to assess the ability of a group of companies is much more challenging. Reliable data on the costs of processing fish were not available from independent sources. A relatively short time in which to conduct the study had been suggested in the terms of reference. However, in spite of recognized difficulties, the Commission developed an approach to its task which would enable it to acquire the best relevant information available.

Considering 1980 fish operations were incomplete and audited financial statements covering these operations would not be available until 1981, the Commission decided to gather information regarding the local inshore fish processing operations during 1979 and information regarding the 1980 market prices and cost changes.

Public information, available from the Department of Fisheries and Oceans, the Provincial Department of Fisheries, the Fishing Industry Advisory Board and other sources, was used to develop for selected species a profile of the general trend in market prices and the prices paid to inshore fishermen.

In order to acquire an understanding of the general condition of the industry in the Province and the trends within it during the recent past, the Commission requested and received annual financial statements of the member companies of the Fisheries Association of Newfoundland and Labrador for each of the years 1975-1979.

However, neither public data nor financial statements of companies of themselves provide information which is sufficiently detailed and precise to enable the Commission to make specific recommendations regarding fish prices for 1980. The Commission, therefore, developed a study, the format of which is found in Appendix B, and engaged chartered accountants to visit the premises of fish company plants and offices to gather information describing the costs of purchasing and processing fish and to record the prices which companies received from the market. In conducting the study, the Commission assumed that the ability of a company to pay increased prices for raw material is determined by the spread existing between the net selling price of the product and the current cost of producing it.

The Commission engaged seven chartered accountants and assigned each to the audit of a specific company. The companies which were audited comprised twelve plants whose operations dealt either exclusively or mainly with inshore fish. The records of each plant were examined and data extracted to show costs of production in pounds and by pack for the latest completed fiscal period of the company. Costs of production in pounds and by pack were obtained for each of the following elements: raw material and collection, direct labour, packaging, overhead and depreciation.

The systems of accounting for costs varied between the companies. There was, therefore, no consistent practice in operation which would enable the auditors to extract comparable costing information in the detail required by the Commission. Faced with inadequate cost accounting records, the Commission selected what was considered to be the most acceptable system in operation, and established certain unit cost standards. All cost data were then restated to conform to these standards. Where standard costs varied from company actuals the variances were reallocated to each product pack in the ratio of standard costs per pack to total costs within each species. Where overhead and depreciation were not allocated in a company's accounting records, the Commission distributed the related total dollars to each product pack in the same proportion that the pack's direct cost had to total direct cost. As a result of the methods used the Commission is satisfied that it has developed a representative cost profile of the inshore fish processing.

From detailed examination of actual sales invoices and from other reliable sources where invoices were not examined, selling prices were also established for each pack and expressed in Canadian dollars, per pound, F.O.B. plant. The difference, therefore, between F.O.B. net sales value and costs of production represents the profit or loss per pack. These pack profits or losses were collated to provide species totals so that the final result disclosed the profit or loss for each species.

The complete examination as described above, was carried out for each company's last completed fiscal year end and the audited financial statements, or the accounting records from which the audited financial statements were prepared, as the case may be, formed the basis for judging the reasonableness of the results obtained.

In most cases pertinent details for the current fiscal period were not available in usable form. The Commission, however has researched market conditions and significant cost changes which have applied to the current year.

To arrive at 1980 net selling prices showing in Table V, the Commission calculated the percentage of change in market prices of 1980 over 1979. The percentage of change was calculated by using prices contained in various market reports and other sources, e.g. the Boston Blue Sheet, the Erkin's Seafood Letter, the Federal Department of Fisheries and Oceans' Market Reports, data collected by the Fishing Industry Advisory Board, and, in some cases, price lists obtained from foreign buyers, and actual company invoices.

Costs for 1980 production, excluding raw material, were determined as being 1979 costs increased by ten per cent. The use of an average of ten per cent increase in costs for 1980 was derived from a study of a number of indices published by Statistics Canada, as well as specific wage settlements which have been negotiated in Newfoundland. For example, the percentage change in the Canada index for average hourly wages during the first four months of 1980 was 9.5. The hourly wage increase negotiated by plant workers in the case of a major fish processor in Newfoundland was in excess of 12 per cent. Packaging and other materials index increased by 13.5 per cent. Maintenance materials index increased 9.0 per cent between July, 1979 and July, 1980. Depreciation changes follow the index of Selling Prices for Machinery Industries, which increased by 10.6 per cent from July, 1979 to July, 1980. Light, heat and power increases are associated with the index for Electric Power Selling Price Index (Newfoundland) and increased by 11.2 per cent from April, 1979 to April, 1980. All of these indices cover most of the costs of production and all of the ones of any significance. The application of an overall rate of 10 per cent for 1980 cost increases is, therefore, not only not excessive, but may, in fact, be an understatement of the cost increases actually being experienced by the producing companies.

Using 1979 calculated costs and net selling prices indexed for 1980 as described above, the Commission calculated the net return per pound by specie for inshore fish purchased as raw material at 1979 contract prices.

CHAPTER II

EXPORT MARKET OVERVIEW 1977-1980

The Province's major export markets during 1977-1979 period were, with some exceptions, characterized by firm price conditions. The U.S. market, for example, which imports approximately 90-95 per cent of the Province's fresh frozen groundfish production remained quite firm during the period with little downward movement in wholesale fish prices except towards the latter half of 1979. The Japanese market for frozen squid, herring and food caplin also remained very firm until the beginning of 1980 when, largely because of an imbalance between supply and demand, squid prices, in particular, declined sharply. Europe, which is the outlet for a major proportion of Newfoundland's production of frozen herring fillets, frozen shrimp and canned and frozen crab remained firm during the period but weakened during the first half of 1980.

Table I indicates the Atlantic Canadian dependence on the U.S. groundfish fillet and block market. In the January-June, 1979 period, for example, the U.S. market accounted for approximately 97 per cent of Canadian frozen fillet exports and an identical percentage of block exports. In this period, Canada exported 60.9 million pounds of block products to the U.S. Preliminary production statistics for 1979 indicate that Newfoundland accounted for 62.3 per cent of the Atlantic Canadian frozen groundfish fillet production and 76.5 per cent of total groundfish block production which totalled 162 and 128 million pounds respectively. Newfoundland's production of frozen turbot and flatfish fillets represented an even greater percentage of the total Atlantic Canadian production. The European market share of Canadian frozen groundfish exports during the first half of 1980 approximated 6 million pounds, less than 10 per cent of total Canadian groundfish exports.

The favourable conditions which prevailed in the Province's principal groundfish market, the United States, for most of the 1977-1980 period, arising from a number of factors, resulted in a strong demand for fish despite the fact that fish prices to the consumer during the same period were increasing faster than were the prices of most other food items. The decline in this demand during the second half of 1979 was attributed to the general downturn in the U.S. economy. For most species generally not in limited supply a downward movement in prices occurred in the second quarter of 1980.

Figures 1 and 2 respectively give an overview of wholesale price movement in the U.S. market for various groundfish fillet and block products for the 1977-1980 period. Cod, flounder, redfish and turbot are the principal groundfish species harvested by the Province's fishing industry. In the inshore sector, of these, cod and turbot are of greatest significance. It is their contribution that determines, to a great extent, the financial success, or otherwise, of the inshore sector of the fishing industry.

Table I

CANADIAN FROZEN GROUNDFISH EXPORTS

(thousand pounds)

January - June

	United States		Other Countries		Total	
	1979	1980	1979	1980	1979	1980
Whole, Dressed						
Cod	2,682	2,657	3,184	2,806	5,866	7,752
Haddock	2,890	887	831	160	3,721	1,047
Halibut	180	1,189	47	408	227	1,597
Total	5,752	4,733	4,062	3,374	9,814	10,396
Fillets						
Cod	21,533	22,149	1,192	2,896	22,725	25,045
Flatfish	11,875	11,167	234	201	12,109	11,368
Turbot	3,184	3,341	323	1,038	3,507	4,379
Ocean Perch	10,074	7,292	3	303	10,077	7,595
Haddock	5,872	4,425	4	19	5,876	4,444
Hake, Cusk, Pollock	8,450	2,427	141	14	8,591	2,441
Total	60,988	50,801	1,897	4,471	62,885	55,272
Blocks						
Cod	38,678	49,405	1,460	5,884	40,138	55,289
Haddock	1,253	1,471	25		1,278	1,471
Flatfish	3,416	3,658	–	–	3,416	3,658
Ocean Perch	388	378	–	–	388	378
Pollock	532	1,254	2	268	534	1,522
Turbot	1,132	1,214	43	108	1,175	1,322
Halibut	31	5	–	–	31	50
Total	45,430	57,385	1,530	6,260	46,960	63,645

SOURCE: Department of Fisheries and Oceans Market Reports.

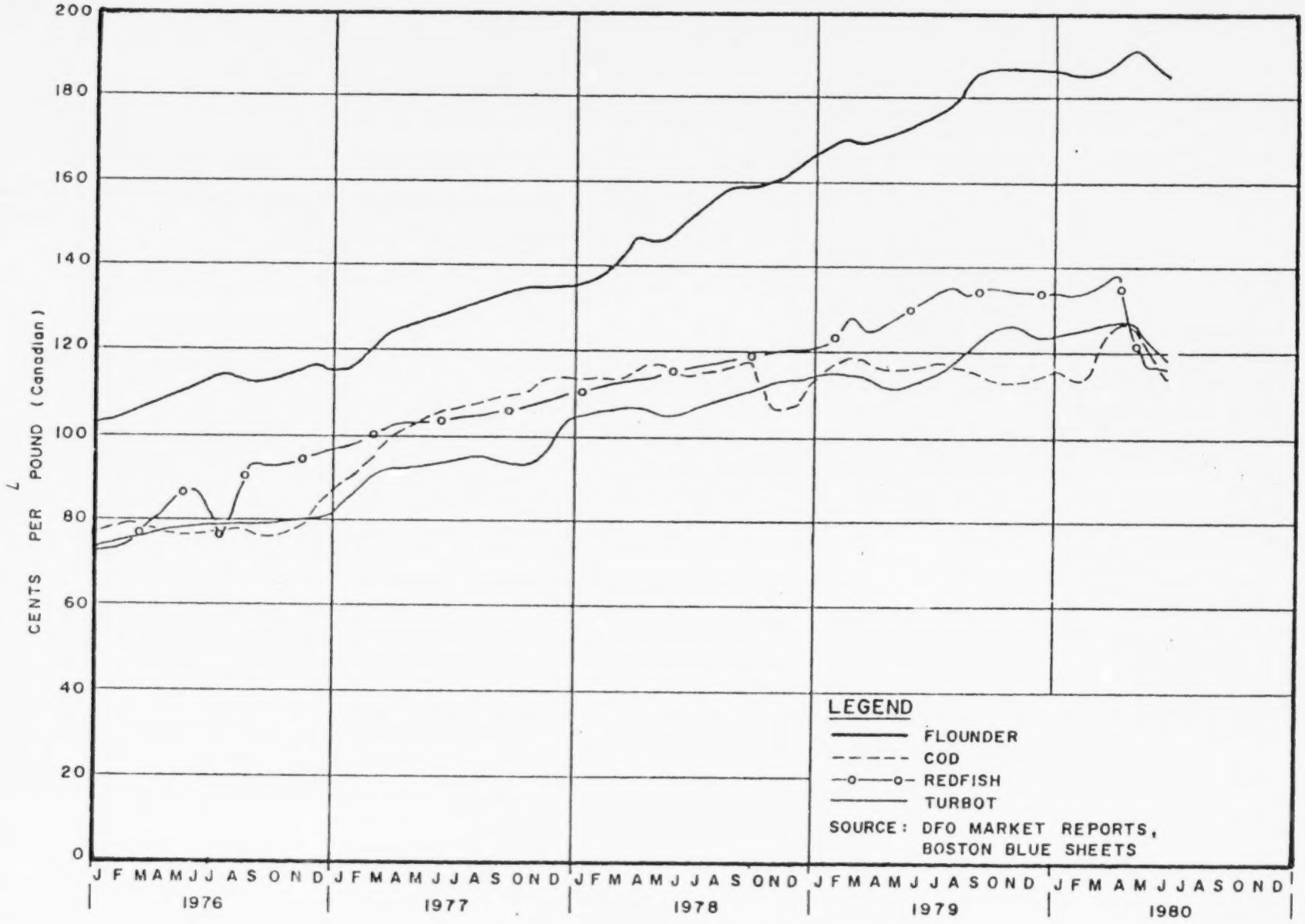

FIG. I MID MONTH WHOLESALE PRICES (BOSTON) OF ONE POUND FILLETS IN EQUIVALENT CANADIAN FUNDS, 1976 - 1980.

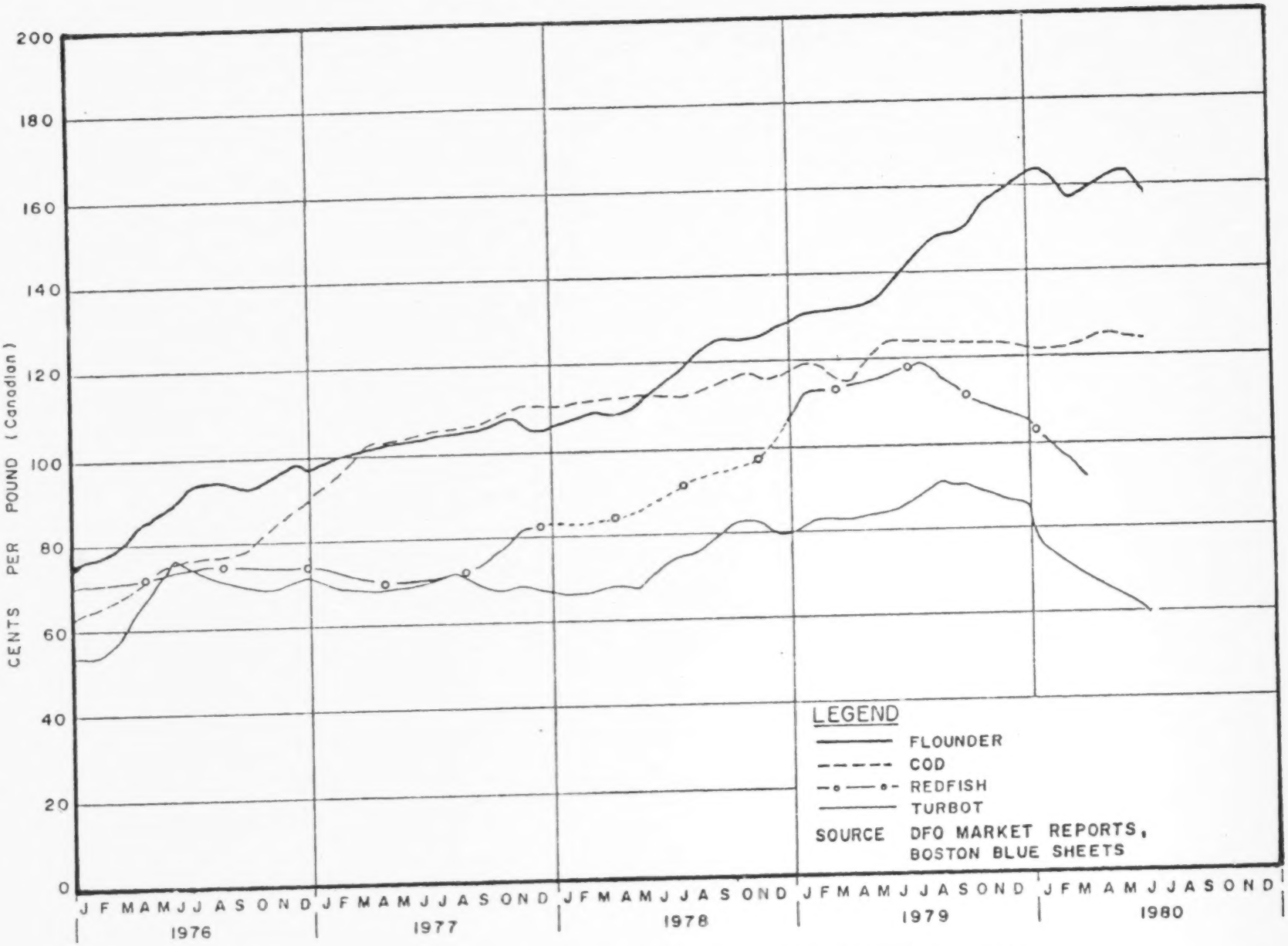

FIG. 2 MID-MONTH WHOLESALE PRICES (BOSTON) FOR SELECTED GROUNDFISH BLOCKS IN EQUIVALENT CANADIAN FUNDS, 1976-1980.

The U.S. shellfish market softened in the second half of 1979 with the crab market having registered the sharpest decline. However, as indicated by Figure 3, the decline in the price of Alaska king crab, a trend-setter in the market, has been more pronounced than that for Canadian snow crab. Frozen snow crab prices bottomed in the second quarter of 1980. The principal market for Newfoundland's frozen and canned crab is Europe with this market having accounted for approximately 58 per cent of Canada's fresh frozen crab exports and approximately 90 per cent of canned crab exports in 1979. Newfoundland's major market for shrimp and frozen herring is also Europe where prices for both remained buoyant for most of the 1977-1979 period.

The most dramatic market development during 1980, in terms of its impact on the inshore fishery, was the virtual collapse of Japanese market demand for Newfoundland squid. During the 1977-1979 period, demand by that market for squid resulted in the Newfoundland catch increasing from approximately 65.5 million pounds in 1977 to 189.7 million pounds in 1979. By the end of August, 1980, total squid landings in Newfoundland dropped to approximately 4.7 million pounds compared with 60 million pounds for the same period in 1979 and average landed prices for 1980 declined by approximately 50 per cent relative to 1979 prices. Such factors as a very successful 1980 squid fishery in Japan's home waters; access to squid supplies through their distant water fishing activities; a carryover of high priced 1979 squid inventory into 1980; and Japanese import quota restrictions all combined to severely depress the wholesale market demand for Newfoundland squid production in 1980. Few firm contracts for any large volume of squid were secured prior to the July opening of the 1980 season with a number of buyers purchasing only limited quantities of frozen squid for tuna bait purposes at prices approximately 40 per cent less per metric ton than those received in 1979. However, certain contracts were secured in various European markets.

Japanese consumer resistance to a number of high priced roe products also reflected itself in the wholesale price for female caplin during 1980 with wholesale prices for premium grades of Newfoundland caplin production having declined by approximately 10 per cent relative to the 1979 price schedule.

Major Market Wholesale Prices for Selected Products

As indicated, the major markets for Newfoundland's fish exports, exclusive of saltfish, are the United States (frozen groundfish and cured herring); Japan (frozen squid and caplin); and Europe (canned and frozen crab, frozen shrimp and frozen and cured herring). Mid-month wholesale price comparisons for principal groundfish products and frozen crab for 1979 and 1980 in the dominant U.S. market are illustrated in Table II. These price comparisons for selected products indicate that the sharpest price declines for Canadian products over the June, 1979 - June, 1980 period occurred in 5 pound cod, Atlantic pollock, ocean perch and 5 pound flounder fillets. In the case of blocks, the major price declines were registered for turbot and ocean perch. Snow crab meat

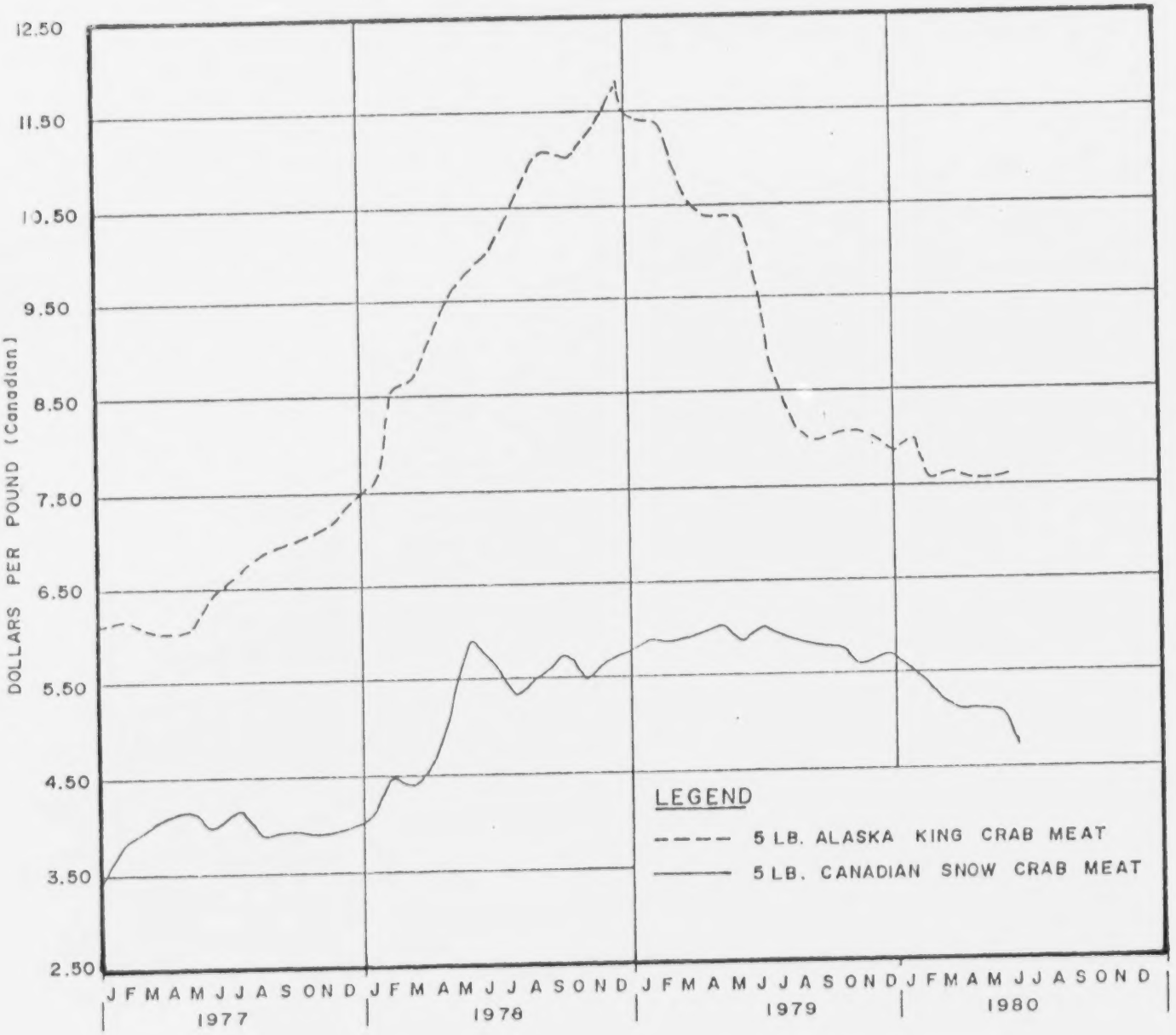
12.50
11.50
10.50
9.50
8.50
7.50
6.50
5.50
4.50
3.50
2.50
DOLLARS PER POUND (Canadian)
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
1977
1978
1979
1980
LEGEND
5 LB. ALASKA KING CRAB MEAT
5 LB. CANADIAN SNOW CRAB MEAT

FIG. 3 MID MONTH WHOLESALE CRAB PRICES (BOSTON) PER POUND IN EQUIVALENT CANADIAN FUNDS, 1977-1980.

Table II
U.S. MID-MONTH WHOLESALE PRICES OF GROUNDFISH FILLETS AND BLOCKS AND FROZEN SNOW CRAB[1]

	Jan. 1979	Apr. 1979	June 1979	Aug. 1979	Dec. 1979	Jan. 1980	Apr. 1980	June 1980
FILLETS								
Cod								
1 lb. ..... Canada	97.5	100.0	100.0	98.5	N/A	98.0	104.0	100.0
5 lb. ..... Canada	85.5	100.0	91.5	80.0	85.5	85.0	86.5	81.0
5 lb. (boneless) ..... Canada	112.5	120.0	120.5	120.0	112.5	112.5	116.5	113.5
5 lb. (boneless) ..... Iceland	160.0	160.0	145.0	160.0	160.0	160.0	160.0	160.0
Atlantic Pollock								
5 lb. ..... Canada	71.0	75.0	75.0	75.0	71.0	70.0	73.5	66.5
5 lb. (boneless) ..... Iceland	96.5	91.0	96.5	96.5	96.5	96.5	90.0	90.0
Haddock								
1 lb. ..... Canada	120.0	112.5	110.0	115.0	120.0	120.0	125.0	N/A
5 lb. (boneless) ..... Canada	120.0	N/A	110.0	110.0	120.0	142.5	145.0	145.0
5 lb. (boneless) ..... Iceland	N/A	N/A	N/A	N/A	N/A	180.0	152.5	180.0
Flounder								
1 lb. ..... Canada	158.0	146.0	152.0	152.0	158.0	158.0	158.0	158.0
5 lb. ..... Canada	155.5	144.5	148.0	149.5	155.5	155.5	154.5	145.0
Ocean Perch								
1 lb. ..... Canada	115.0	110.0	115.0	115.0	115.0	115.0	115.0	100.0
5 lb. ..... Canada	110.0	105.0	110.0	110.0	110.0	110.0	N/A	N/A
5 lb. ..... Iceland	N/A	N/A	N/A	N/A	N/A	N/A	93.5	94.0
Greenland Turbot								
10 lb. (layer pack) .... Canada	98.0	100.0	98.0	99.0	98.0	98.0	N/A	98.0
BLOCKS								
Cod	105.0	100.0	106.5	106.5	105.0	105.0	105.0	105.0
Haddock	125.0	110.0	115.0	115.0	124.5	125.0	132.5	127.5
Flounder	140.0	115.0	130.0	130.0	140.0	140.0	137.5	130.0
Turbot	71.0	70.0	73.0	75.0	71.5	71.0	58.5	49.0
Ocean Perch	85.0	100.0	105.0	102.5	85.0	85.0	N/A	N/A
Pollock	69.5	73.0	73.0	73.0	70.0	70.0	69.0	69.0
FROZEN CRAB								
5 lb. Canadian Snow	4.85	5.25	5.25	5.25	4.80	4.80	4.30	3.95
Crab Meat	5.05	5.45			5.00	4.85	4.75	4.25
5 lb. Alaska King	9.75	9.00	8.85	6.90	7.00	7.10	6.50	6.75
Crab Meat	9.90	9.50	9.20	7.40	7.10	7.25	6.85	7.00

[1]In U.S. funds — groundfish (cents lb.); crab (dollars lb.)

SOURCE: Department of Fisheries and Oceans Market Reports

sustained a substantial price decline over the same period having dropped from $5.25 U.S. per pound to $3.95 U.S. per pound. The June, 1980 prices for a number of products, including haddock and one pound flounder fillets, were higher than for the same month in 1979. It is worthy of note that cod block prices in the major U.S. market have not registered any noticeable improvement over the same period.

The wholesale price movement for the U.S. market is readily available on a regular basis, primarily through the Boston Blue Sheet reports. However, such is not the case for both Japan and Europe in relation to Canadian fish exports. Furthermore, sales transactions involving the export of domestic fish products to these two markets tend to be characterized by 'spot contract prices' whereas the Boston Blue Sheet quotations tend to impact on wholesale price movement within the U.S. from one day to the next.

European prices for most of those selected products exported from Newfoundland to Europe were firm during 1979. For example, premium grades of frozen butterfly herring fillets in the West German market increased from approximately 60.5 cents per pound (C.I.F.) in January, 1979 to over 70 cents per pound by February, 1980. By June, 1980, the price for top quality herring products had declined slightly, partially because of heavy inventories and the availability of fresh supplies from Baltic production. The European market for frozen cold water shrimp has remained quite firm over the 1979-1980 period with the peeled, IQF shrimp CIF price (London) advancing from $3.40 per pound in January, 1979 to $4.00 in December, 1979, and to approximately $4.10 in June, 1980.

The European market, in the first half of 1979, purchased 34.5 per cent of Canadian frozen crab meat exports and 90.4 per cent of canned crab exports. This compares with 44.0 and 94.4 per cent respectively for exports of frozen and canned crab to Europe in the first half of 1980. During 1979, the price of Canadian canned crab in the Western European market advanced from $Can43.50 per case (24 x 5 ounces) to a maximum of $Can 56.00 CIF by the end of 1979. The canned crab market softened in the first half of 1980 with the European price having settled at about $Can46.00 CIF Europe per case by August, 1980.

In 1979, average prices for substantial tonnages of round frozen squid for the Japanese market were in the order of $U.S.650. FOB per metric ton. In 1980, buyers were purchasing limited quantities at approximately $U.S.400. - $450. FOB with some price offers ranging as low as $U.S.250. - $350. per metric ton. Similar price changes from 1979 were registered for frozen tubed squid with prices dropping from approximately $U.S.1200. FOB per metric ton in 1979 to approximately $U.S.620. in 1980. A decline in domestic food caplin prices was less dramatic than that experienced for frozen squid, with buyers offering for Grade A (100 per cent large female caplin) approximately $U.S.1400. FOB per metric ton in 1980 compared with $U.S.1600. in 1979.

In summary, it can be stated that the export market for fish products in general was more sluggish in the first half of 1980 than for the corresponding 1979 period. With few exceptions, wholesale fish prices registered a downward movement in the first half of 1980 with turbot and redfish block prices having started their decline in the third quarter of 1979, a decline which continued into 1980. Cod block prices have remained relatively steady over the 1978-1980 period but cod fillets, as did the other major groundfish fillets, registered a downturn at the beginning of the second quarter of 1980. On the whole, groundfish fillet and block prices in the major U.S. market were lower in mid-June, 1980 than for the same period in 1979.

Inshore Fish Prices Related to Market Prices

Appendix C gives an overview of contract prices for inshore fish for the 1977-1979 period for all species by selected gear and grade. In 1979, those species to which these prices could apply, represented approximately 98 per cent of total inshore landings. An examination of the price schedule for the 1977-1979 period indicates that all principal species registered increases.

Prices for cod and turbot, which represented approximately 92 per cent of 1979 inshore groundfish landings increased at different rates for various grades over the 1977-1979 period. For example, Grade A baited hook cod, over twenty-four inches, increased from 16 cents per pound in 1977 to 22 cents per pound in 1979 for most areas of the Province, an increase of 37.5 per cent; Grade A gillnet and jigger cod, over twenty-four inches, increased from 15 cents per pound to 18.5 cents per pound, a 23.3 percentage increase. Round cod, sixteen inches and over, including round trap cod, increased from 9.5 cents per pound to 12.25 cents per pound, a 28.9 per cent increase during the period in question. Similar price increases occurred for bobtailed Grade A turbot which increased from 9 to 11.75 cents per pound over the 1977-1979 period, an increase of 30.5 percent.

During the 1977-1979 period prices for three major species within the shellfish category also moved upwards. Shrimp increased from 30 cents per pound in 1977 to 39.5 cents per pound in 1979; crab increased from 19.5 cents per pound to 27 cents per pound during the same period; and the round squid prices increased from 5 cents per pound in 1977 to a high of 11 cents per pound during the last four months of 1979.

Herring, mackerel and caplin are the three principal pelagic species which are included in the schedule of contract prices. The price for herring increased from 5 cents per pound in 1977 to a high of 10 cents per pound in the second half of 1978 but a floating price prevailed in 1979. Mackerel prices remained fairly stable over the 1977-1979 period having increased from 5 cents per pound in 1977 to 6.5 cents per pound in 1979. Contract prices for food caplin were first negotiated in 1977. The price for premium grade female caplin increased from 14 cents per pound in 1977 to 26 cents per pound in 1979.

Table III presents the relationship between wholesale market prices for selected species and grades by pack on the one hand, and the prices paid fishermen for certain inshore species expressed in percentages for the years 1977 to 1979 on the other. The specific packs assigned to each grade represent possible products and are not meant to suggest that these were the only packs produced from the various species grades during the period.

Table III

INSHORE FISH PRICES
EXPRESSED AS A PERCENTAGE
OF WHOLESALE MARKET PRICES,
1977-1979

PRODUCT DESTINATION BY GEAR AND GRADE	1977	1978	1979
Cod			
Grade A, baited hook, greater 24", 10 & 15 lb. Jumbo	37.3	37.0	39.6
Grade A, baited hook, 16"-24", boneless 5 lb.	35.3	35.3	38.6
Grade A, baited hook, 16"-24", bone-in 1 lb.	39.7	41.8	46.9
Grade A, gillnet & jigger, greater 24", block	43.4	44.0	45.6
Grade A, gillnet & jigger, greater 24", 10 & 15 lb. Jumbo	35.0	33.5	33.3
Grade A, gillnet & jigger, 16"-24", block	36.0	37.4	39.4
Grade A, trap, greater 24", block	43.4	43.3	45.1
Grade A, trap, 16"-24", block	36.0	33.6	38.7
Round Fish, greater 16", block	32.9	34.7	36.2
FLOUNDER (PLAICE)			
Grade A, greater 11", block	41.3	42.1	38.5
Grade A, greater 11", 1 lb.	33.2	32.9	31.4
Round, greater 11", block	42.5	39.4	31.4
TURBOT			
Grade A, bobtailed, block	39.7	41.9	42.1
Grade A, bobtailed, 5 lb.	30.3	27.6	31.5
OCEAN PERCH			
Round, large (100 count), 5 lb.	32.3	35.8	36.8
Round, small (100 count), block	37.7	N/A	29.7
CRAB			
5 lb. Combination Pack	23.46	20.95	22.62

Assumptions:

Cod Yield — 33%; Flounder Yield — 24% Bobtailed, 20% Round;
Turbot Yield — 33%; Ocean Perch Yield — 25%; Crab Yield — 21%
Average Annual Boston Blue Sheet Market Prices, 1977-1979
Negotiated Prices in Effect for 1977-1979 period

CHAPTER III

INSHORE FISH PROCESSING COSTS AND NET RETURNS

In the light of market conditions reported in Chapter II and the known percentage increase in costs of processing, the Commission, by considering only that general information and assuming the 1979 inshore fish prices acquired through collective bargaining had been commensurate with the companies' ability to pay, might have found itself in a position to recommend that the companies could not pay prices for inshore fish in 1980 in excess of those paid in 1979. However, the Commission elected to conduct its work by deferring any serious examination of the general information until after it had gathered specific information regarding local inshore fish processing operations. The general information was then valuable, not only as a description of conditions generally in the fishing industry, but also to provide data against which the specific information from the local industry could be compared.

The Commission recognized that an important feature of its considerations was the acutal cost of processing fish. Very little detailed information on the subject could be found in public documents and other general information sources. In its deliberations regarding processing costs, the Commission, therefore, relied heavily on data acquired through its own study.

The Commission selected a sample of fish plants processing approximately thirty-seven per cent of the total 1979 inshore production. As described in Chapter I, chartered accountants examined the records of plants and companies and delivered to the Commission information from which a realistic description of the 1979 costs of processing and prices was derived.

By using procedures described in Chapter I, the Commission calculated 1979 prices and the costs of purchasing and processing fish by species and pack for each plant in the sample. The data for each of the plants were then consolidated in a summary description which showed a financial picture of the inshore fish processing industry in 1979. By assigning known increases in costs, as described in Chapter I, to costs calculated for 1979 and adjusting 1979 calculated net sale prices by indices derived from changes between 1979 market prices and, for the majority of cases, those for the first six-months of 1980, the Commission developed a realistic picture of 1980 costs and net selling prices in the inshore fishing industry. Using the 1979 raw material costs, the Commission calculated the 1980 contribution by species and pack in cents per pound of production.

Table IV shows the results of the Commission's information and calculations for selected species for the year 1979. Table V shows the results for 1980.

Table IV

PRODUCT COSTS AND NET SELLING PRICE BY SELECTED SPECIES FOR 1979 SAMPLE PLANTS SUMMARY

SPECIES	PRODUCTION POUNDS	PRODUCT COSTS[1] ¢/lb.	NET SELLING PRICE ¢/lb. Canadian	NET RETURN ¢/lb. Canadian
COD	30,953,403	111.95	110.61	(1.34)[2]
TURBOT	6,468,694	92.41	96.37	3.96
FLOUNDER	2,163,758	148.02	157.57	9.55
PERCH	580,674	117.65	106.37	(11.28)
CATFISH	184,511	117.49	129.86	12.37
GREYSOLE	831,422	154.58	167.76	13.18
LUMPFISH ROE	552,018	86.22	98.64	12.42
CAPLIN	2,158,115	46.69	71.23	24.54
HERRING	11,367,098	47.74	44.16	(3.58)
MACKEREL	2,096,759	30.07	19.36	(10.71)
CRAB	1,508,059	426.92	502.64	75.72
SQUID	27,218,946	37.22	39.26	2.04

[1]Includes 1979 cost of inshore fish
[2]( )indicates a negative return

To preserve the confidentiality of the information obtained from specific plants and companies, the Commission has elected not to publish figures for five species each of which was processed by fewer than three plants in the sample. It must be pointed out, however, that the 1979 total production for four of the species was approximately one per cent of the 1979 total production of inshore fish. The returns on such a small proportion of total production do not significantly affect the ability to pay either as revealed by the Commission's summary or in the industry itself.

The 1979 costs shown in the table were calculated on the 1979 production. Since the total production for 1980 was not available to the Commission, it was assumed, for the purposes of calculating 1980 costs, that the volume of production in 1980 would equal that of 1979. A production in 1980 smaller than that for 1979 would tend to increase unit costs; a production in 1980 larger than that for 1979 would tend to decrease unit costs. After having compared the production for the first six months of 1979 with the production for the first six months of 1980 in the six plants for which inshore fish production for the first six months of 1980 was readily available, the Commission finds the production in the first six months of 1980 was approximately sixty-six per cent of production for the same period in 1979. The Commission does not have any information regarding the ratio of production for the second half of 1980 to the production

for the same period in 1979. It should be pointed out that in 1979 the production in the six plants for the first six months of the year was approximately twenty-two per cent of their total production for the year. However, the information for the first six months of 1980, although describing only a small percentage of total production, supports the probability that 1980 production of inshore fish, even without the influence of a cessation of fish processing or harvesting, will be smaller than that for 1979. Production information for the first six months of 1980, therefore, supports the probability that the costs shown in the 1980 table are lower than those which will actually occur.

Calculations based on the assumptions described above, led the Commission to conclude that by paying 1979 prices for inshore fish in 1980 the companies would acquire a net return on some species and experience a net loss on other species. It is only by a fortuitously judicious mix of species and packs, however, that the fish processing companies maintain their ability to pay for raw material especially in a period of rising costs and market stagnation or downturn. The Commission, therefore, felt obliged to examine a bottom line figure for the plants summary based on the same assumptions used in calculating the costs per species and assuming that total production was sold at calculated prices. Informed by the figures produced in the examination of the net return in total dollars, the Commission concludes that operating at 1979 prices for raw material processed at 1980 processing costs and sold at 1980 market prices the inshore fish processing industry will not realize a profit. Indeed, even assuming 1979 production volume and the sale of that total production, the data indicates the inshore fish processing industry will experience a financial loss.

Table V presents 1980 costs and selling prices which indicate a net loss on eight species and a net gain on four species. The net return situation, as described in the table, presented to the Commission the option either to recommend a decrease in inshore fish prices for eight species and an increase in inshore fish prices for four species or to recommend that prices for raw material not be increased over those for 1979 and allow the gain on four species to contribute a measure of compensation for losses on eight species.

For several reasons, the Commission was persuaded to the point of view that to recommend prices for inshore fish in 1980 not be increased over those for 1979, except for one species referred to later in this report, was the most reasonable to take. Although matters may change if a licencing system which encourages specialization is developed — a possible phenomenon which the Commission will examine in Phase Three of its work – historically both fisherman and processing companies have sustained their operations by applying the gain on one species to compensate for the loss on another species. Indeed, it may be to the advantage of both the fishermen and the processor to have the gain from a short season fishery, e.g. caplin, used to sustain the opportunity for a long season fishery, e.g. cod, where otherwise the losses experienced by a processor may cause a plant to be closed. With respect to the companies' ability to pay prices in excess of those for 1979, the most persuasive point, however, was that the data indicated that both the sample summarized and each company of the majority of the companies in the sample would experience a loss for 1980. The ability of the companies to pay more, even for those species for which a net gain is indicated, was, therefore not evident.

Table V

PROJECTED PRODUCT COSTS, NET SELLING PRICES AND NET RETURN BY SELECTED SPECIES FOR 1980 SAMPLE PLANT SUMMARY

SPECIES	PRODUCTION POUNDS	PRODUCT COSTS[1] ¢/lb.	NET SELLING PRICE ¢/lb. Canadian	NET RETURN ¢/lb. Canadian
COD	30,953,403	117.49	110.83	(6.66)[2]
TURBOT	6,468,694	97.30	92.42	(4.88)
FLOUNDER	2,163,758	155.84	165.92	10.08
PERCH	580,674	123.91	94.03	(29.88)
CATFISH	185,511	123.79	112.97	(10.82)
GREYSOLE	831,422	161.93	150.98	(10.95)
LUMPFISH ROE	552,018	89.82	96.36	6.54
CAPLIN	2,158,115	48.93	63.53	14.60
HERRING	11,367,098	50.05	50.52	.47
MACKEREL	2,096,759	32.17	19.36	(12.81)
CRAB	1,508,059	453.43	445.33	(8.10)
SQUID	27,218,946	39.09	23.18	(15.91)

[1]Includes 1979 cost of inshore fish
[2]( ) Indicates a negative return

The Commission feels obliged to comment regarding two commodities not shown in the tables. To identify the actual cost of producing fish meal would require a prolonged in-depth study of the process. Consequently, the Commission, in the limited time available to it, has been unable to calculate precise costs and net returns for the commodity. However, by examining the volume of production and return on sales and by assuming a certain raw material mix of offal and fish purchased for reduction, the Commission has come to the conclusion that the 1979 price for caplin for reduction is a reasonable price for 1980 purchases. Shrimp, for which data on cost of production and selling were collected, is the second product not included in the tables but which deserves comment. Only one company in the sample produces shrimp and, indeed, only one of the members of the Fisheries Association of Newfoundland and Labrador Limited has a significant Newfoundland production of shrimp. The context in which shrimp is produced, therefore, is not described well by the sample summary but is better described by the characteristics of that part of the sample derived from the producing company. After examination of the shrimp production data, and applying the same calculations as were used for all species, the Commission recommends that the 1980 inshore shrimp price should be set at 5.5 cents per pound above the inshore shrimp price for 1979.

The Commission's conclusions may be summarized as follows:

1. The inshore fish operations of the member companies of the Fisheries Association of Newfoundland and Labrador will not provide financial returns in 1980 to support an increase in inshore fish prices, except those for shrimp, in excess of 1979 contract prices.

2. The inshore shrimp price for 1980 should be forty-five cents per pound.

3. Regarding specific recommendations on inshore fish prices for 1980 for species other than shrimp, the Commission concludes it can not justify recommending any increase. However, where Companies and the Union have, subsequent to the appointment of the Commission, agreed on interim prices, the Commission believes it is reasonable that the interim prices be applied from the date they became effective to the end of 1980.

APPENDIX A

TERMS OF REFERENCE

ELIZABETH THE SECOND by the Grace of God of the United Kingdom, Canada and Her Other Realms and Territories QUEEN, Head of the Commonwealth, Defender of the Faith.

Lieutenant-Governor.

COMMISSION

TO: Brose V. Paddock, B.A.Ed., M.Ed. (Chairman)
Aidan J. Maloney
David E. Howley, C.A.

WHEREAS it appears desirable and expedient that an enquiry be made into the Inshore Fishery of Our Province.

NOW KNOW YE that under and by virtue of The Public Enquiries Act, Chapter 314 of The Revised Statutes of Newfoundland, 1970, We, by and with the advice of Our Executive Council of Our Province of Newfoundland, reposing great trust and confidence in your knowledge, integrity and ability, have constituted and appointed and do by these Presents constitute and appoint you the said

Brose V. Paddock
Aidan J. Maloney
David E. Howley

to be Commissioners to hold an enquiry into the matters following, without limiting the generality of the foregoing, and any other matters associated therewith, that is to say:

(i) examine and audit all such records of the member companies of the Fisheries Association of Newfoundland and Labrador as you deem appropriate to determine the ability of members of the said Association to pay

inshore fish prices in excess of 1979 contract prices;

(ii) make specific recommendations on fish prices for 1980;

reporting thereon within approximately 60 days from the date of your appointment.

AND FURTHER, We require you, the said Commissioners, within 7 months from the date of your appointment, to examine and report on all factors pertinent to the establishment of inshore fish prices including:

(i) the economic needs of inshore fishermen in terms of the economic viability of inshore fishing enterprises and the fish prices necessary to enable fishermen, who prosecute such fishery, to earn a reasonable level of income and to be able to reasonably re-invest in the inshore fishery;

(ii) all other factors including;

(i) all costs related to the catching of fish by vessel category and species mix;

(ii) all costs of processing fish by plant category and species mix;

(iii) market returns by species, quality and pack;

(iii) existing buying practices and all other conditions affecting the first-hand sale of fish in the Province with particular reference to:

(i) the geographic distribution of landing places and processing plants;

(ii) transportation requirements and collector services;

(iii) ice and bait holding facilities;

(iv) seasonal fluctuations in the inshore fishery;

(v) traditional business arrangements;

(vi) "point of sale" grading systems based upon the quality of landed catches; and

(iv) the effectiveness of the Fishing Industry (Collective Bargaining) Act in its present form and the need, if any, for alternate or supplementary mechanisms for the establishment of inshore fish prices.

AND FURTHER, We require you to enquire into and report on

(i) the present and projected state of fish stocks on which the inshore fishery depends;

(ii) the impact of limited entry and other licencing schemes upon the incomes of inshore fishermen, the future evolution of the inshore fishery and the social and economic development of communities predominantly dependent upon the inshore fishery;

(iii) the role of the Canadian Salt Fish Corporation in the future evolution and development of the inshore fishery;

(iv) the marketing structure of the fish processing industry including marketing practices through to the consumer; and

(v) all such other matters as may be brought to your attention, particularly by the Newfoundland Fishermen, Food and Allied Workers Union or the Fisheries Association of Newfoundland and Labrador, which you find to be relevant and appropriate.

AND WE DO, by these Presents, confer upon you, the said Commissioners, the power of summoning before you any witness or witnesses and of requiring all such witnesses to give evidence orally or in writing upon oath or upon solemn affirmation, and to produce such documents and things as you, the said Commissioners,

may deem requisite to the full investigation of the matters you are appointed to enquire into;

AND WE DO, by these Presents, authorize you, the said Commissioners, to adopt such procedures and methods as you, the said Commissioners, may from time to time deem expedient for the proper conduct of the enquiry, and to sit at such times and places, whether in public or in camera, as you, the said Commissioners, may from time to time decide;

AND FURTHER, We require you, with as little dalay as possible, to report to Us your findings upon the matters herein submitted for your consideration.

IN TESTIMONY WHEREOF We have caused these Our Letters to be made Patent and the Great Seal of Newfoundland to be hereunto affixed.

WITNESS: Our trusty and well-beloved the Honourable Gordon Arnaud Winter Officer of Our Order of Canada, Lieutenant-Governor in and for Our Province of Newfoundland.

AT OUR GOVERNMENT HOUSE in Our City of St. John's this 20th day of August, in the year of Our Lord one thousand nine hundred and eighty and in the twenty-ninth year of Our Reign.

BY COMMAND,

REGISTRAR GENERAL

APPENDIX B

AUDIT PROGRAMME

APPENDIX B

ROYAL COMMISSION TO INQUIRE
INTO THE INSHORE FISHERY OF
NEWFOUNDLAND AND LABRADOR

AUDIT PROGRAM

Section 1 - Objectives

The objective of the audit program is to gather sufficient specific information to determine the profitability of each specie of inshore fish covered by the union contract. This will involve analyses of various accounts of the companies selected for review and the preparation of extensive, detailed schedules and other work papers.

The program will attempt to identify items that may not be considered normal costs of a typical operating plant. The result should be a representative operating plant with its operating costs allocated reasonably over all of the species of production. The results should show the average margin for each specie within this model plant.

One main point to remember is that this information is to relate to inshore fish production. Plants with offshore supply must be analyzed to isolate inshore operation costs to the extent possible. All cost and expense charges which are allocated to production cost by specie should be described and documented thoroughly.

The examination will cover the financial year end covering 1978, all of 1979 by months and all of 1980 for which figures are

available. If information for any aspect of the forms is not available, please indicate as such and continue to gather what is available.

Section 2 - General Information

Company Name _____

Location Head Office _____

Location of Plants _____

Contact Name and Position _____

How often are financial statements prepared _____

By Whom _____

Name of Company Auditors _____

Obtain blank copies of internal statements.

Briefly explain operation of Fisherman's Payroll.

Obtain Chart of Accounts .

Does plant have a formal costing system _____. If so:

Briefly describe system under following headings:

Raw Material Costing

Direct Labour Recording

Section 2 (Continued)

Overhead Allocation

List costing records prepared showing frequency and obtain copies _____

Fillet Production

1. Type of unloading system. Bucket and Hoist _____

   Air Suction _____ Fisherman Unload (Inshore)

   _____

2. Number of skinning machines in production line _____

3. Type of ice making system - block _____ Ice

   machines _____ Number of Ice Makers _____

   capacity _____ tons per day.

4. Number and type of freezers - Number _____

   Type _____

5. Cold storage capacity _____

   Does plant use Pallets? _____ Forklift Trucks

   _____

6. Does plant have any of the following equipment?

   (a) Automatic gutting and heading machines _____

   If so, number and type _____

Section 2 (Continued)

(b) Mincing machines _____ If so, number and type _____

(c) Grading machines _____ If so, number and type _____

(d) Wrapping machines _____ If so, number and type _____

(e) I.Q.F. Freezers? _____

(f) Any other similar equipment? _____

7. Is there a fishmeal plant? _____ Type _____ Capacity _____ tons per day.

8. Is there an oil recovery system _____ Describe same:

How are each of the following treated in company financial accounts? For costing purposes?

(a) Transfer costs - trawler to plant (trawler losses)

(b) Dumped fish - paid for

Section 2 (Continued)

(c) Fish meal (offal credit)

(d) Inward shipping costs (agents' fees, trucking)

(e) Cost of trawler discharge (overtime)

(f) Ice

(g) Monthly paid plant personnel:

Foremen

Machine Shop

Engineers

(h) Office Staff

(i) Head Office management salaries and expenses

(j) How are overheads designated?

Section 2 (Continued)

(k) Depreciation

(l) Insurance

(m) Local outward shipping and stevedoring costs

(n) Foreign Exchange

Section 3 - Raw Materials Production - Inshore Fish

This section will be used to record monthly inshore fish purchases in quantity and dollars for the period designated. The main source of this information is the inshore fisherman's payroll.

If the figure for dollars of purchases is difficult to obtain, a thorough test should be made of prices paid during the year. From this a cents/lb. of specie can be derived and then used to obtain purchases-dollars.

Inshore fish purchases from above should be reconciled to financial statements and/or general ledger.

Section 3 (Continued)

There may be some inshore fish sales: i.e. inshore fish bought and then sold to another plant. Such sales should be netted against purchases as they usually are transacted as straight-forward transfers at original purchase prices.

Purchases of inshore fish from another plant will be included in inshore fish purchases of the processor. This section will utilize Schedule 1, 2, 3, 4, 5 and 6.

Production Schedule

Each plant should have records of total pounds of production of each specie. The degree of pack information may vary. Tabulate information on Schedule 7 and 8.

Detailed Audit Procedures
Inshore Fisherman's Payroll

(1) Reconcile inshore fisherman's T4A summary for the year to inshore purchases-dollars per Schedule 1.

(2) On a test basis:

(a) Select T4A's for detailed checking.

(b) Check back to earnings card of fisherman.

(c) Test check payroll calculations for a pay period.

(d) Vouch supporting information back to fish receipt slips.

(e) Check all calculations.

(f) Check prices paid per receipt to union contract.

Section 3 (Continued)

(g) Trace fish purchases to production or raw material book if possible.

(h) Scan T4A's or payroll earnings cards for any unusual or large earnings for the year. Verify any such amounts to be paid to fishermen.

(i) Scan several payrolls, note and investigate any omission of social insurance numbers or other such pertinent information.

Section 4 - Packaging Materials

This cost usually consists of inner wraps, overwraps and master cartons.

Review the system of packaging materials allocation with officials to determine basis of allocation if any. If there is no allocation to packs, establish a total packaging material cost and discuss a reasonable means of allocation with operators. Document basis established.

In cases of branch operation of large firms, ascertain whether packaging costs are actual costs or applied standards.

Reconcile total packaging material costs to general ledger or financial statements for the year under review. Tabulate results in Schedules 9 for each month.

Section 4 (Continued)

Detailed Audit Checks

(1) Test vouch invoices for packaging material purchases.

(2) Post to accounts payable sub-ledger.

(3) Post invoice distribution to general ledger.

(4) Scrutinize purchases charged to Packaging Materials Account and obtain explanation for any items not clearly identifiable for use in the packaging operation.

NOTE:

Be careful in a situation where there is both inshore and offshore supply of fish. Assure packaging costs are allocated over all production and not just inshore.

Section 5 - Direct Labour

Includes only direct, hourly production labour as follows:

- Receiving
- Cutting
- Trimming
- Weighing
- Packing
- Freezing
- Storage

Section 5 (Continued)

- Also add 10% for employee benefits
- Be sure to eliminate any direct labour attributable to trawlers, i.e. trawler discharge.

If there is a system of Direct Labour Allocation:

(1) Review system to evaluate degree of allocation of direct labour by specie and packs.

(2) If system present, evaluate compliance with above components of direct labour and adjust accordingly.

(3) Determine how direct labour is allocated to each pack and document for file.

(4) Use inshore production costs where system provides such information.

If a system of Direct Labour Allocation does not exist:

(1) Build direct labour cost table for the months under review using the above guidelines.

(2) If no basis of allocation provided:
Allocate labour on the basis of production pounds for each inshore pack to total production for year. Tabulate results in Schedule 9 for each month.

Section 5 (Continued)

Detailed Audit Procedures

Plant Labour Payroll

On a test basis:

(1) Select payroll cheques.

(2) Trace cheque to payroll journal.

(3) Trace cheque back to employee earnings record.

(4) Check gross to net calculations and deductions.

(5) Vouch hours to time cards.

(6) Examine time cards for approval.

Section 6 - Overheads-Operating

These costs are all costs except overheads specifically listed as overheads - fixed. This section requires very close review as the objective of the entire review is to produce statistics that are comparable from company to company. Tabulate on Schedule 9.

(1) All accounts should be examined for reasonableness. List all accounts for the months covered.

(2) Management salary accounts should be reviewed to determine contents. Management and indirect salaries not related to inshore fishery should be removed.

Section 6 (Continued)

(3) Any accounts of unusual magnitude or unusual nature should be analyzed and documented.

(4) Company housing, vehicles, vessels, etc., should be reviewed to determine degree usage and usefulness to the business operation.

(5) Overheads related to operations other than inshore fish processing should be isolated and excluded from this section totals.

(6) Bonus and dividend accounts should be examined and documented separately.

(7) Travel accounts should be analyzed in detail.

(8) If no allocations provided, allocate overheads on the same basis as was used for labour-direct.

(9) If overheads are allocated by company, review basis of allocation to assure that inshore fish costs do not contain overheads pertaining to offshore or other operations.

Typical operating overhead accounts are:

*Indirect Labour	Heat, Light, Power & Water
Overtime	Chlorination
UIC and Worker's Comp.	Ammonia
Canada Pension Plan	Ice
Group Pension Plan	Office Supplies and Stationery

Section 6 (Continued)

Training

Repairs and Maintenance

Pans and Boxes

Expendable Supplies

Fuel and Lubes

*Travel

Communication

*Plant Salaries

Royalties

Sundry

Conferences and Meetings

* Requires careful analysis in light of inshore fish costs.

Section 7 - Overheads - Fixed

This section includes only:

(1) Insurance on groundfish plant and equipment.

(2) Plant lease costs, if any.

(3) Interest on long-term financing of plant buildings and equipment.

(4) Share of head office expenses of part of a multi-plant operation.

(5) Municipal and property taxes.

The above expenses should be reviewed to assure, if possible, that they do not include costs that are not applicable to inshore fish processing. Exclusions should be documented. Tabulate on Schedule 9.

Section 7 (Continued)

If no basis of allocation provided, allocate overheads - fixed by pack on basis of production lbs.

Interest expense - Analyze closely to remove interest incurred on equipment and buildings that are not related to the species covered by this review. Document fully.

Head Office Allocations - Analyze closely to determine content and degree to which they are applicable to inshore fish production. Document fully.

Section 8 - Depreciation

(1) Depreciation for plant and plant equipment only should be included in this figure.

(2) Review depreciation policy for consistency.

(3) Review capital expenditure vis-a-vis repairs and maintenance to determine policy. Document fully.

(4) If no basis of allocation provided, allocate depreciation by pack on basis of production. Tabulate on Schedule 9.

Detail Checks:

(1) Review fixed asset additions for a year.

(2) Vouch to supplier invoices.

(3) Check depreciation calculations for that year.

Section 9 - Government Subsidies

(1) Determine total amount of Government subsidies for the year.

(2) Assure subsidy figures are not included in cost analysis calculations.

Section 10 - F.O.B. Plant Selling Prices

Sales prices should be analyzed for each of the months in the format provided by Schedule 10. Tabulate results on these schedules.

Detailed Checks:

(1) On a test basis select sales invoices.

(2) Compare sales prices to price lists provided by client.

(3) Check calculations of invoices.

(4) Post to sales journal.

(5) Post to accounts receivable sub-ledger.

(6) Examine shipping documents to support sales invoices.

(7) Examine all debits to sales accounts.

(8) Check credit notes and credit names for authorization and reasonableness.

Section 10 (Continued)

(9) (a) Prepare listing of customers (for the period audited) by name and volume.

(b) Check terms and discounts offered/taken.

(10) Check claims for non-receipt of shipments, claims for spoilage or any other reason.

Audit of Forward Sales Contracts

(1) Obtain copies of sales contracts.

(2) Make extracts which detail the significant financial terms.

(3) Test vouch sales invoices for compliance with the contract terms.

(4) Prepare work papers which show comparison of sales terms between contract sales and other sales (if any).

(5) Determine relationship between contracting parties from the point of view of "arms-length" transactions.

Section 11 - Schedule Index

Schedule 1

Monthly summary of the pounds of each specie purchased, and if available, category of specie bought during the last financial year. Inshore fish only.

Section 11 (Continued)

Schedule 2

Monthly summary of the pounds of each specie, and if available, category of specie bought during the months since last financial year end. Inshore fish only.

Schedule 3

Monthly summary of purchases in dollars of each specie, and if available, category of specie bought during the last financial year. Inshore fish only.

Schedule 4

Monthly summary of purchases in dollars of each specie, and if available, category of specie bought during the months since the last financial year end. Inshore fish only.

Schedule 5

Monthly summary of the collection costs incurred by specie to deliver the raw material to the plants during the last financial year. Inshore fish only.

Schedule 6

Monthly summary of collection costs incurred by specie to deliver the raw material to the plants for the months since the last financial year end. Inshore fish only.

Schedule 7

Monthly summary of production pounds by pack for the last

Section 11 (Continued)

financial year. Inshore fish production only.

Schedule 8

Monthly summary of production pounds by pack for the months since the last financial year end. Inshore fish production only.

Schedule 9

This schedule will be produced for each month/period of the last financial year and available months since the last financial year end. Any information not available on a monthly basis must be noted as such.

Schedule 10

This schedule will be produced for each month/period of the last financial year and available months since the last financial year end. Any information not available on a monthly basis must be noted as such.

Schedule 11

Summary by month/period of the profit or loss per pound of each pack produced during the last financial year.

Schedule 12

Summary by month/period of the profit or loss per pound of each pack produced since the last financial year end.

APPENDIX C

INSHORE FISH PRICE CONTRACT SCHEDULE, 1977-1979

INSHORE FISH PRICE CONTRACT SCHEDULE, 1977-1979

SPECIE AND DETAIL	1977	1978	1979
COD			
Gutted head-on, Grade A, baited hook (over 24")	16	18.5	22/22.5
Gutted head-on, Grade A, baited hook (16"-24")	13.5	15.5	18/18.5
Gutted head-on, Grade B, baited hook (over 24")	13	13	13
Gutted head-on, Grade B, baited hook (16"-24")	10	10	10
Gutted head-on, Grade A, shrimp trawl (over 24")	16	18.25	20
Gutted head-on, Grade A, shrimp trawl (16"-24")	13.5	15.25	17
Gutted head-on, Grade B, shrimp trawl (over 24")	13	13	13
Gutted head-on, Grade B, shrimp trawl 16"-24")	10	10	10
Gutted head-on, Grade A, gillnet & jigger (over 24")	15	16.75	18.5
Gutted head-on, Grade A, gillnet & jigger (16"-24")	12.5	14.25	16
Gutted head-on, Grade B, gillnet & jigger (over 24")	12	12.5	12.5
Gutted head-on, Grade B, gillnet & jigger (16"-24")	9.5	10	10
Gutted head-on, Grade A, Trap (over 24")	15	16.5	18.25
Gutted head-on, Grade A, Trap (16"-24")	12.5	14	15.75
Gutted head-on, Grade B, Trap (over 24")	12	12.5	12.5
Gutted head-on, Grade B, Trap (16"-24")	9.5	10	10
Trap Cod, gutted head-on, 16" and over*	13	14.5	16.25
Round Fish, 16" and over	9.5	11	12.25
Round Trawl Fish (after Aug. 15, 1978 & 1979)(16" & over)	12.5	14	15.75
FLOUNDER			
Bobtailed, Grade A (11" and over)	10.5	12	13.75
Round (11" and over)	8	9	9
Winter Flounder (2 cents less for above grades)			
Bobtailed black back flounder	7	8	8
Round black back	5	6	6
GREYSOLE			
Round, Grade A, (12" and over)	9	12	13.75
TURBOT			
Gutted, Grade A			12
Bobtailed, Grade A	9	10	11.75
Round	7	7.5	8.5

APPENDIX C (Continued)

SPECIES AND DETAILS	1977	1978	1979
CATFISH			
Gutted head-on, Grade A	8	10	11.5
Round	7	7	7.5
PERCH			
Round, Large (100 count or less)	8	10	11.5
Round, Small (greater than 100 count)	7	7	8.5
HALIBUT			
Gutted head-on, Grade A (10 lbs. and over)	60	70	80
Gutted head-on, Grade A (under 10 lbs.)	40	50	55
HADDOCK			
Gutted head-on, Grade A (over 24")	17	20	21.5
Gutted head-on, Grade A (16"-24")	17	18	19.5
Pollock			
Gutted head-on, Grade A	8	8	9.5
SMELT	15	15	15
FISH FOR REDUCTION	1.5	1.5	1.5
SHRIMP	30	35	39.5
CRAB	19.5	23	27
LUMPFISH ROE	25	28	30
HERRING	5	8.5/10	Float
MACKEREL	5	6	6.5
SQUID			
April 15 - August 14 (1979)	5	9	9
August 15 (1979)			11
CAPLIN			
100% Female	14	20	26
Mixed - 75% Female	8	12	16
Mixed - 50%-75% Female	6	8	9
Mixed - 25%-50% Female	3	3	3.25
Caplin for reduction	1.5	1.5	1.5

* Fishermen shall declare on landing for the day whether their catch is to be culled as to size or sold for the straight price for 16" and over. (1979)

APPENDIX D

SELECTED INDICES OBTAINED FROM STATISTICS CANADA

SELECTED INDICES OBTAINED FROM STATISTICS CANADA

	INDEX	SOURCE	DATA		Per Cent Change
DIRECT LABOUR	Employment & Average Earnings and Hours	SC 72002 Jan-May, 1980, Pages 4 & 5, Line 42	Average Hourly Wage		
			1980	1979	
			Jan. 7.78	7.15	
			Feb. 7.88	7.18	
			Mar. 7.99	7.24	
			Apr. 8.02	7.32	
			May 8.02	7.38	
			June 8.12	7.41	
			Av. 7.968	7.280	+9.5
PACKAGING AND OTHER MATERIALS	Industry Selling Prices by Major Groups - Folding Cartons & Boxes	SC 62-011, July, 1980, Table 1	July, 1979	178.9	
			July, 1980	203.1	+13.5
			Apr., 1979	176.3	
			Apr., 1980	202.7	+15.0
			Jan., 1979	171.7	
			Jan., 1980	194.7	+13.4
OVERHEADS - Labour	Employment and Average Earnings and Hours - Canada	SC 72-002, Jan-May, 1980, Pages 4-5, Line 42	As above for Direct Labour		+ 9.5
- Maintenance Materials	Implicit Price Index - Total Gross Fixed Capital Formation	SC 11-003, Sept., 1980, Section 1, Selected Economic Indicators, Analytical Summary	Percentage Change from Previous Quarter		
			1979	Factor (%)	Compounded Cumulative (%)
			1st. Quarter	2.9	2.9
			2nd. Quarter	2.3	5.2
			3rd. Quarter	1.9	7.1
			4th. Quarter	2.6	9.7
			1980		
			1st. Quarter	2.9	12.6
			2nd. Quarter	1.6	14.2

	INDEX	SOURCE	DATA		PER CENT CHANGE
OVERHEADS (Continued)					
- Utilities	Electric Power Selling Price Index (Non-Residential) - NFLD.	SC 62-011, July, 1980, Table 3,	April, 1979 April, 1980	159.8 177.7	+11.2
- Other Supplies	Industry Selling Price Index:Manufacturing	SC 62001, July, 1980, Table 1, Line 1, Manufacturing Index	July, 1979 July, 1980	218.3 245.8	+12.6
DEPRECIATION	Industry Selling Prices by Major Groups - Machinery Industries	SC 62-011, July, 1980, Table 1, Item D 532900	July, 1979 July, 1980	187.2 207.0	+10.6
GENERAL AND ADMINISTRATION SALARIES	Employment and Average Earnings and Hours	SC 72-002, May, 1980, Pages 4 & 5, Line 42, Average Weekly Earnings	April, 1979 April, 1980	366.07 402.97	+10.1
OTHER	Implicit Price Index, Gross National Expenditure	SC 11-003, September, 1980, Section 1, Selected Economic Indicators Analytical Summary	Percentage Change from Previous Quarter		
			1979	Factor(%)	Compounded Cumulative (%
			1st. Quarter	2.9	2.9
			2nd. Quarter	3.7	6.6
			3rd. Quarter	2.2	8.8
			4th. Quarter	2.6	11.4
			1980		
			1st. Quarter	2.8	14.2
			2nd. Quarter	2.1	16.3